End Stage Renal Disease
Composite Payment Rate System

FACT Sheet

This Fact Sheet highlights significant policy changes that were published in the November 15, 2004 Final Rule for End Stage Renal Disease (ESRD).

Background

The End Stage Renal Disease (ESRD) Medicare payment for dialysis services has been made based on a fixed amount known as the composite rate. The composite rate provided a single payment amount that was not varied according to the characteristics of the beneficiary treated. This rate included the cost of some drugs, laboratory tests, and other items and services provided to Medicare beneficiaries receiving dialysis. Drugs that were separately billable were paid based on the Average Wholesale Price (AWP). Epogen (EPO) was not paid at the AWP; rather, it was paid at $10.00 per 1,000 units.

ESRD Payment Provisions in the Medicare Prescription Drug, Improvement and Modernization Act of 2003

The Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003 requires Medicare to change the way it pays facilities for dialysis treatments and separately billable drugs. A key purpose of §623 of the MMA is to eliminate the cross-subsidization of composite rate payments by drug payments. These revisions will also lead to more accurate payment for both drugs and the composite rate. Medicare will spend the same amount of money as would have been spent under the prior system, but the cross-subsidy will be eliminated.

Changes Effective January 1, 2005

- Composite rate payments increase by 1.6 percent
- Payment for separately billable drugs based on acquisition costs
- Facilities paid separately for syringes used for administering EPO
- Facilities **should** begin to report two new value codes:
  - Value Code A8 - patient weight in kilograms (after dialysis)
  - Value Code A9 - patient height in centimeters (as patient presents)
- Drug add-on adjustment of 8.7 percent added to the composite rate

Changes Effective April 1, 2005

- Case-mix adjustments for limited patient characteristics
- Budget neutrality with respect to aggregrate payments
- Facilities **must** report two new value codes:
  - Value Code A8 - patient weight in kilograms (after dialysis)
  - Value Code A9 - patient height in centimeters (as patient presents)
  - If facilities do not report these value codes, bills will be returned to them
- New exception window opens for ESRD facilities that qualify as pediatric facilities

Providers are encouraged to report and code co-morbidities on ESRD claims, which will enable the development of an additional number of patient case-mix measures.

ALSO IN THIS ISSUE:

Hospital and Independent Facility Specific Rates
(effective January 1, 2005)

	Hospital	Independent
Facility Specific Base Rate	$132.41	$128.35

Additional Adjustment Factors

Adjustment Factor	Multiplier
Drug Add-On*	1.087
Body Surface Area (BSA)** (per 0.1 $_{\Delta}$BSA from 1.84)	1.037
Body Mass Index (BMI) (< 18.5 kg/m^2)	1.112 for patients with BMI less than 18.5
Age	1.62 for pediatric patients under age 18
Case-Mix Budget Neutrality Factor	0.9116

**Drug add-on effective January 1, 2005. All other additional adjustment factors effective April 1, 2005.*
***The BSA adjustment multiplier is used in the following calculation: 1.037* $^{((BSA-1.84)/0.1)}$

Other Adjustment Factors	Effect on Composite Rate
Condition Code 73 (if applicable) for Revenue Code 0821, 0831, and 851	Add $20 to final rate
Condition Code 73 (if applicable) for Revenue Code 0841	Add $12 to final rate
Condition Code 74 (if applicable)	Multiply (3/7) by final rate

Payment Amount for the 10 Most Frequently Used Separately Billed Drugs
(effective January 1, 2005)

Drug	2005 Average Acquisition Payment Amount
Epogen	$ 9.76
Calcitriol	$ 0.96
Doxercalciferol	$ 2.60
Iron dextran	$10.94
Iron sucrose	$ 0.37
Levocarnitine	$13.63
Paricalcitol	$ 4.00
Sodium ferric gluconate	$ 4.95
Alteplase, Recombinant	$31.74
Vancomycin	$ 2.98

Other ESRD drugs will be paid at the Average Sales Price (ASP) plus 6 percent. Hospital-based ESRD facilities will continue to be paid cost for all separately billable drugs with the exception of EPO, which will be paid the average acquisition payment amount.

DID YOU KNOW?

Effective January 1, 2005, Medicare pays ESRD facilities separately for syringes used for administering EPO.

Drug Add-On

The MMA requires an adjustment add-on to the composite rate to account for the drug spread, which amounts to an increase of 8.7 percent or $11.17 for independent facilities and $11.52 for hospital-based facilities. Since this is an add-on to the composite rate, the payments are also geographically adjusted. The drug spread is the difference between the payments under the old composite payment system for separately billable drugs (95 percent of AWP) and payments based on the revised drug pricing methodology.

Changes Effective April 1, 2005 - Case-Mix Adjustments to Composite Rates Based on Patient Characteristics for Non-Pediatric Patients

- Patients with a BMI less than 18.5 kg/m^2
- BSA (meters^2)
- Five age categories

Age	Multiplier
18-44	1.223
45-59	1.055
60-69	1.000
70-79	1.094
80+	1.174

For Pediatric Patients (under age 18)

The BMI, BSA and age adjustments that have been developed for Medicare ESRD patients will not be applied to beneficiaries under age 18. For pediatric patients, a case-mix adjustment factor of 1.62 will be applied to the composite rate. This adjustment is temporary until an appropriate permanent adjustment can be developed. Facilities that otherwise qualify as a pediatric facility under §623(b) of the MMA will be permitted to seek an exception to the composite rate if they believe that their circumstances warrant a higher payment rate under the atypical services exception provision set forth in the regulations. Qualification for a pediatric exception is limited to those facilities in which pediatric patients comprise at least 50 percent of the caseload. Pediatric facilities that had exceptions in effect as of October 1, 2002 may not apply for an exception under §623 of the MMA.

RECENT CHANGES

Early 2005
- Published revised conditions of coverage

Mid 2005
- Published proposed rule for 2006 updates

Fall 2005
- Described and discussed fully bundled ESRD Prospective Payment System in Report to Congress

January 1, 2006
- Began demonstration to test new system

Helpful End Stage Renal Disease Resources

Centers for Medicare & Medicaid Services
End Stage Renal Disease Center
www.cms.hhs.gov/ESRDGeneralInformation

Centers for Medicare & Medicaid Services
ESRD Composite Payment Rate System Program Transmittals

Change Request 3539 / Transmittal 348
www.cms.hhs.gov/transmittals/Downloads/R348CP.pdf

Change Request 3554 / Transmittal 27
www.cms.hhs.gov/transmittals/Downloads/R27BP.pdf

Change Request 3554 / Transmittal 373
www.cms.hhs.gov/transmittals/Downloads/R373CP.pdf

Change Request 3720 / Transmittal 477
www.cms.hhs.gov/transmittals/Downloads/R477CP.pdf

Centers for Medicare & Medicaid Services
Medicare Part B Drugs Average Sales Price
www.cms.hhs.gov/McrPartBDrugAvgSalesPrice

Centers for Medicare & Medicaid Services
Medicare Learning Network
www.cms.hhs.gov/MLNGenInfo

Centers for Medicare & Medicaid Services
MLN Matters Articles
www.cms.hhs.gov/MLNMattersArticles

Centers for Medicare & Medicaid Services
Medicare Modernization Update
www.cms.hhs.gov/MMAUpdate

Federal Register
Payment for Renal Dialysis Services Final Rule
Vol. 69, No. 219, November 15, 2004
http://a257.g.akamaitech.net/7/257/2422/15nov20040800/edocket.access.gpo.gov/2004/pdf/04-24785.pdf

ICN: 006440